

NOTE 16 - RECENT ACCOUNTING PRONOUNCEMENTS - CONTINUED

In November 2002, the FASB issued Interpretation 45 (FIN 45), *Guarantor's accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. FIN 45 requires a guarantor entity, at the inception of a guarantee covered by the measurement provisions of the interpretation, to record a liability for the fair value of the obligation undertaken in issuing the guarantee. FIN 45 applies prospectively to guarantees issued or modified subsequent to December 31, 2002, but has certain disclosure requirements effective for interim and annual periods ending after December 15, 2002. The Company has not historically issued guarantees and does not anticipate FIN 45 to have a material effect on the Company's financial statements.

In January 2003, the FASB issued FIN 46, *Consolidation of Variable Interest Entities*. FIN 46 clarifies the application of Accounting Research Bulletin 51, *Consolidated Financial Statements*, for certain entities that do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties on in which equity investors do not have the characteristics of a controlling financial interest ("variable interest entities"). Variable interest entities within the scope of FIN 46 will be required to be consolidated by their primary beneficiary. The primary beneficiary of a variable interest entity is determined to be the party that absorbs a majority of the entity's expected losses, receives a majority of its expected returns, or both. FIN 46 applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The Company does not anticipate FIN 46 to have a material effect on the Company's financial statements.

EXHIBIT F

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**ROCKY MOUNTAIN CHOCOLATE FACTORY
OPERATIONS MANUAL
2002**

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EXHIBIT G

SUBLEASE AND ASSIGNMENT AGREEMENTS

SUBLEASE AGREEMENT

This Sublease Agreement ("Sublease") is made this _____ day of _____, 20____, by and between Rocky Mountain Chocolate Factory, Inc., a Colorado corporation ("Sublessor"), and _____, _____ ("Sublessee").

RECITALS

- A. Sublessor as Lessee entered into a certain lease (the "Lease") dated _____, 20____, with _____, whose address is _____, as Lessor, to allow Sublessee to operate a ROCKY MOUNTAIN CHOCOLATE FACTORY Store in certain premises located in the _____ Mall in _____, (the "Leased Premises").
- B. Sublessor and Sublessee have entered into a Franchise Agreement dated _____ ("Franchise Agreement"), which will govern Sublessee's operation of a ROCKY MOUNTAIN CHOCOLATE FACTORY Store at the Leased Premises.

NOW THEREFORE for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Sublessor shall sublease the Leased Premises to Sublessee under the terms and conditions of the Lease, a true and correct copy of which is attached hereto as Exhibit A and by this reference incorporated herein. References in the Lease to "Lessor" or "Landlord" shall mean Sublessor and to "Tenant" or "Lessee" shall mean Sublessee for the purposes of this Sublease. The Lease is for a _____ (____) year term commencing _____, 20____, and terminating on _____, 20____. The term of this Sublease shall commence on _____, 20____. This Sublease shall terminate one day before the termination date of the Lease and any extension thereof.
2. Sublessee agrees that the sole purpose of this Sublease is to facilitate Sublessee's operation of a ROCKY MOUNTAIN CHOCOLATE FACTORY Store on the Leased Premises. Therefore, the

cessation of the operation and/or change in use of the Leased Premises for any use other than a ROCKY MOUNTAIN CHOCOLATE FACTORY Store continuously during the entire term of this Sublease shall constitute a material default of this Sublease and shall entitle Sublessor to all of its rights and remedies under the law, including but not limited to, those specifically set forth under the default provisions of the Lease.

3. Sublessor specifically prohibits any assignment or sublease of the Leased Premises or of any interest in this Sublease by Sublessee. Any such assignment or sublease by Sublessee shall be null and void ab initio.
4. Any default by Sublessee under its Franchise Agreement with Sublessor which would justify a termination of such Franchise Agreement shall also constitute a default under this Sublease and justify termination of this Sublease. Sublessor hereby agrees to notify Landlord of any uncured default by Sublessee under its Franchise Agreement (after notice thereof to Sublessee) which would justify a termination of such Franchise Agreement.
5. All payments required to be made by Sublessee under this Sublease shall be made by Sublessee directly to Lessor in accordance with the provisions of the Lease. Sublessee agrees to indemnify, defend and hold harmless Sublessor, its affiliates and their respective shareholders, directors, officers, employees, agents, successors and assigns (collectively, "Indemnified Parties") against, and to reimburse them for, all claims, obligations and liabilities directly or indirectly arising out of the Lease and/or this Sublease. For purposes of this indemnification, claims shall include all obligations, actual and consequential damages and costs reasonably incurred in the defense of any claim against the Indemnified Parties, including, without limitation, reasonable accountants', attorneys' and expert witness fees, costs of investigation and proof of facts, court costs, other litigation expenses and travel and living expenses. Sublessor shall have the right to defend any such claim against it. This indemnity shall continue in full force and effect subsequent to and notwithstanding the expiration or termination of this Sublease.
6. The addresses for the parties for notices shall be as follows:

Sublessor: Rocky Mountain Chocolate Factory, Inc.
 265 Turner Drive
 Durango, Colorado 81303

and to Sublessee at the Leased Premises.

7. Sublessee assumes and agrees to perform all obligations of Sublessor as set forth in the Lease as though it were tenant under that document and as though Sublessor were the landlord. Sublessee shall have no right to prepare plans or effect tenant's improvements to the Leased Premises except as may otherwise be agreed upon in writing by Sublessor, which agreement shall not be unreasonably withheld.
8. At the conclusion of the term of this Sublease, Sublessee shall, at its own expense, if requested by Sublessor or Lessor, remove all changes or alterations and restore Leased Premises to the condition which would have existed had not such changes or alterations been made, reasonable wear and tear excepted.
9. If applicable, this Sublease is subject to Lessor's written consent as required under the Lease and shall be effective only upon such consent, represented by Lessor's signature below.

Lessor: _____

By: _____
Its: _____

Sublessor: Rocky Mountain Chocolate Factory, Inc.,
a Colorado corporation

By: _____
Its: _____

Sublessee: _____

By: _____, Personally

By: _____, Personally

OR

By: _____

Its: _____

(6/1/03)

EXHIBIT A

Lease Dated _____, 20_____
Between Rocky Mountain Chocolate Factory, Inc. and

ASSIGNMENT AND ASSUMPTION OF LEASE

THIS ASSIGNMENT AND ASSUMPTION OF LEASE ("Assignment") is made as of _____, 200____, between Rocky Mountain Chocolate Factory, Inc. a Colorado corporation ("Assignor"); _____, a _____ ("Assignee"); and _____, a _____ ("Landlord").

RECITALS

- A. Assignor is the current tenant under that certain lease with Landlord dated _____, as amended (the "Lease") attached hereto as Exhibit A.
- B. Assignor desires to assign the Lease to Assignee and Assignee desires to assume all of the obligations of the Lease.
- C. Landlord agrees to permit the assignment and assumption and subsequent conditional assignment of the Lease in accordance with the terms of this Assignment.

AGREEMENT

NOW, THEREFORE, in consideration of the mutual covenants and upon the conditions contained in this Assignment, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Assignor, Assignee and Landlord hereby agree as follows:

1. Assignment. Assignor hereby assigns, conveys and delivers to Assignee all of Assignor's right, title and interest in, to and under the Lease, including without limitation: (i) all security deposits held by Landlord under the Lease and not heretofore returned or applied in accordance with the terms of the Lease (which security deposits are identified on Exhibit B attached hereto), provided that as consideration for this Assignment, Assignee shall pay to Assignor the amount of such still outstanding security deposit prior to the Effective Date; (ii) any rights in and to any subleases created under the Lease; (iii) any rights to improvements created by the Lease; and (iv) any options to extend the term of Lease. Assignee and Landlord agree that Assignor shall have no obligation or liability under the Lease from and after the Effective Date.

2. Assumption. Assignee hereby accepts the foregoing assignment, conveyance and delivery and assumes and agrees to perform and be bound by all the terms, conditions and obligations required to be performed by the Assignor under the Lease from and after the date hereof. Assignee shall defend, indemnify and hold harmless Assignor, Assignor's affiliates and their respective officers, directors, managers, members, partners, shareholders, equity owners, employees, representatives, successors and assigns from and against all claims, damages, losses, costs, expenses and liabilities (including but not limited to all attorneys' fees, court costs and expert witness fees paid or incurred by Assignor) which arise out of or are in any way connected with any act, cause of action or omission by Assignee under or with respect to the Lease or security deposits arising, accruing or occurring on or after the Effective Date.

3. NO REPRESENTATIONS. EXCEPT AS PROVIDED IN THIS ASSIGNMENT, ASSIGNOR MAKES NO REPRESENTATIONS OR WARRANTIES WITH RESPECT TO THE LEASE OR ASSIGNOR'S RIGHT, TITLE OR INTEREST IN, TO OR UNDER THE LEASE, ALL OF WHICH ARE HEREBY DISCLAIMED AND EXCLUDED.

4. Conditional Assignment from Assignee to Assignor. Assignee is the franchisee and Assignor is the franchisor under that certain franchise agreement dated ("Franchise Agreement") for the operation of a ROCKY MOUNTAIN CHOCOLATE FACTORY Store on the premises that are the subject of the Lease. As security for Assignee's obligations to Assignor under the Franchise Agreement, Assignee shall conditionally assign the Lease to Assignor pursuant to the Conditional Assignment of Lease attached hereto as Exhibit C. Landlord approves of the Conditional Assignment of Lease by Assignee to Assignor.

5. Binding Clause. This Assignment shall be binding on and inure to the benefit of Assignor and Assignee and their successors in interest and assigns.

6. Governing Law. This Assignment and the legal relations of the parties hereto shall be governed by and construed and enforced in accordance with the laws of the State of Colorado, without regard to its principles of conflicts of law.

7. Counterparts. This Assignment may be executed in one or more counterparts, and by facsimile signature, each of which shall be deemed an original and all of which shall constitute one and the same Assignment.

8. Landlord Fees. Assignee shall reimburse Assignor for all costs required by the Lease to be paid to Landlord in conjunction with Landlord's review and approval of this Assignment.

9. Attorneys Fees. If any lawsuit is filed which relates to or arises out of this Assignment, the prevailing party, as determined by the court, shall be entitled to recover from each other party such attorneys' fees as the court may award (including without limitation, the allocated costs for services of in-house counsel), in addition to such other costs and expenses of suit as may be allowed by law.

10. Consent. Landlord's signature below shall constitute its consent to the Assignment as required by the Lease.

11. Effective Date. This Assignment shall be effective as of the date first set forth above.

IN WITNESS WHEREOF, this Assignment was made and executed as of the date first above written.

ASSIGNOR:

ROCKY MOUNTAIN CHOCOLATE FACTORY, INC.

By: _____

Name: _____

Title: _____